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C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 013174

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DEPT FOR EUR/RUS WARLICK, HOLMAN, AND GUHA  
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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)  
SUBJECT: RUSSIA ENERGY: DOWN TO THE WIRE ON BELARUS GAS  
STANDOFF

REF: MOSCOW 12963

Classified By: AMB William J. Burns. Reasons 1.4 (b/d).

11. (C) Summary. Lukashenko's two-year saga to avoid higher gas prices and the sale of 50 percent of Beltransgaz (BTG - the Belarusian gas pipeline operator) appears to be coming to a close, and he is standing firm on both accounts. Gazprom has dropped its insistence that BTG be part of the deal, and is saying that \$105/tcm is its final offer. Both Gazprom and its European customers say they are prepared for supply disruptions, but now that seems less likely. The MFA claims "fierce" efforts for a "successful" negotiation are in play, with an eye to avoiding last year's New Year's gas cut off. This may explain Gazprom's significant concessions over the last 24 hours on both BTG and price. Russia's energy tug of war with Belarus, first over oil export duties, and now over gas, appears part of Putin's increasingly tough stance towards Lukashenko, who is characterized by some Russians as "disloyal" and "too independent." End Summary.

BTG STAKE NO LONGER A FACTOR  
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12. (SBU) December 29 marks a shift in the high-rhetoric atmosphere since talks broke down between Russia and Belarus on December 26. This week has seen Belarus threatening to cut off Gazprom supplies to Europe, and Gazprom CEO Alexey Miller responding that Gazprom was under no obligation to supply gas to Belarus if an agreement is not reached by New Year's. Gazprom now appears to have significantly backed down. Gazprom spokesman Sergey Kupriyanov said the firm was no longer insisting on acquiring a stake in BTG, and was willing to accept a price of \$105/tcm for 2007 deliveries. This is more than double the 2006 rate of \$46.7/tcm, but significantly below the rates being charged to Georgia (\$235/tcm) and Moldova (\$170/tcm) and Ukraine (\$130/tcm).

13. (C) For weeks, the two sides have stumbled over the terms of financing a possible 50 percent stake for Gazprom in BTG. Belarus insisted Gazprom pay for the \$2.5 billion BTG stake up front in cash; Gazprom was looking to arrange longer term financing, essentially reducing the price of gas to Belarus over four years by roughly the same \$2.5 billion (at a rate of roughly \$80/tcm for at least 2007). Belarus claims Gazprom reneged on a previous deal to sell gas to Belarus in 2007 for \$75/tcm and pay the full \$2.5 billion up front in cash for the stake in BTG, and pushed for any discussion of

joint management of the pipeline to be put off until the first quarter of 2007. Gazprom's Director for Foreign Relations Ivan Zolotov told us December 28 that without BTG as part of the deal, Gazprom wanted to raise the 2007 gas price to Belarus to \$230/tcm.

14. (C) In a separate December 28 conversation, former Deputy Energy Minister Vladimir Milov characterized the commercial negotiations as a struggle over control of BTG. Lukashenko has avoided concrete discussions about Gazprom's purchase of a 50 percent in BTG for over two years. Yushchenko's success last year in taking Gazprom's bid for a stake in Ukraine's pipeline off the table may have emboldened Lukashenko's steadfast reluctance to sell a stake in BTG to Gazprom. The current negotiations are another attempt by Lukashenko to delay a decision on BTG until next spring when more favorable terms might be negotiated.

#### NOT YET A DONE DEAL

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15. (SBU) Should the negotiations still come to a showdown over the next two days, it is pretty clear how a cutoff would manifest itself. BTG is one of two trunk lines, Gazprom-owned Yamal-Europe is the other, through which Gazprom sends gas to Europe via Belarus. Approximately 44 bcm of Russian gas to Europe transit Belarus (by comparison 30 bcm transits through the Yamal-Europe pipeline and 14 bcm through BTG). Belarus buys 20 bcm annually, and this is delivered solely through the BTG. For technical reasons, Gazprom cannot completely shutdown the BTG, but could reduce the pressure through the pipeline to a rough equivalent of 14 bcm -- or the amount needed for European deliveries. If it wanted, Belarus could take this 14 bcm for itself, leaving

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European customers short. Belarus could also disrupt gas supplies to Europe through the Yamal-Europe line by shutting down three of the five compression stations that the two lines share. Belarus has stockpiled fuel oil to replace Russian gas supplies for power generation, which could meet the country's needs for as long as two months, according to Milov. On the Russian side, Stanislav Belikovskiy from the Institute of National Strategy told us that Russia would not be able store unsold Belarus gas for long, since it has only 17 days of storage capacity, which is almost completely full.

16. (C) According to Zolotov, Gazprom began preparing its downstream customers for the possibility of a supply disruption as early as July. Storage facilities in Germany and Latvia could offset supply interruptions, according to our German and Latvian Embassy contacts. A German Embassy official told us that they had reserves for 70 days. The Polish Oil and Gas Company claims that it is ready as well, having filled its storage capacity. Poland receives 35% of its gas through Yamal. Belikovskiy told us that Russia cannot afford another gas crisis.

#### BELARUS POLICY AT A CROSSROADS

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17. (C) The energy tug-of-war with Belarus this year is seen by many as part and parcel of a broader cooling in relations with Lukashenko. The Kremlin-friendly director of the Europe Institute, Sergey Karaganov, who has advocated Russia's embrace of an alternative to Lukashenko, told us that he was hopeful that Moscow's policy toward Belarus would change. The Russian bottomline remains the same, he emphasized, as it seeks a Belarusian leader who is "dependent on and loyal to" Moscow (and, in return, receives subsidized oil and gas). The absence of chemistry between Putin and Lukashenko fuels a tougher line toward Belarus; however, Russia's policy is complicated by the absence of an attractive alternative to Lukashenko. Milenkevich, Karaganov argued, lacks national appeal. The GOR, he noted, has good contacts within the opposition and diaspora communities, adding that most

Belarusian opposition political material is published inside Russia in neighboring Smolensk.

¶8. (C) Karaganov claimed the US had complicated the Kremlin,s efforts to disengage from Lukashenko, noting that Russia was damned if it did or didn,t pressure Lukashenko to change. The US decision to raise the hunger strike by Belarusian opposition leader Kozulin at the UN Security Council angered the Russian leadership, he added, and fed into a growing consensus that the US was intent on scoring press points against Russia,s reemergence as a world leader. In Karaganov's view, Belarus had two choices: to remain with Russia, or join the West.

GOR SEEKING COMPROMISE  
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¶9. (C) Russia is making "fierce" efforts for successful negotiations with Lukashenko to avoid a deja-vu New Year's Eve gas cutoff according to government officials. MFA,s Viktor Sorokin, Director of the Second CIS Department said although Gazprom,s conditions should be "comfortable" to Belarus, Moscow will push for a compromise to escape an escalation into a cutoff. This official view was seconded by Moscow Belarus watchers. Andrey Grozin, CIS Institute, told us that the change in Russia,s overall foreign policies necessitates a different energy policy towards Belarus -- closer to market-based conditions and pricing. He did not envision a confrontation as it happened with Ukraine last year. Like MFA officials, Grozin, predicted a last-minute compromise.

COMMENT  
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¶10. (C) With Gazprom's latest offer of \$105/tcm, and agreement to take discussions about BTG off the table (at least for now) it appears that Gazprom has stepped back from its original game plan. Lukashenko may have called it right; digging in his heels on BTG, and betting that the GOR would pressure Gazprom to back off its high price demands has paid off. A gas cutoff now seems increasingly unlikely, but from

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our Moscow perspective it appears that Lukashenko could still provoke a last-minute confrontation. If a showdown comes, the most likely scenario would be for Gazprom to reduce gas flows on January 1, and for Belarus to respond by interrupting the transit of gas through the Yamal-Europe pipeline.  
BURNS